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REAL ESTATE MARKET CONTEXT

The Eisenhower East area is an important economic opportunity for the City of Alexandria. The area is currently undergoing significant change from largely vacant land to a high-density urban district. This summary of the real estate market provides an overview of the market potential for the development of office and retail/entertainment uses in the Eisenhower East area and the potential fiscal benefits to the City from the future development.

This section summarizes the findings of a report prepared by Whitney & Whitney, Inc., entitled “Analysis of Market Potentials for Office and Retail Space in the Eisenhower East Corridor, December 2002”. The residential market was not studied at this time, as it appears that there is a strong, unmet market demand for quality urban residential for the foreseeable future given the current structure of interest rates. Alexandria with its close-in location and proximity to Washington, DC, and the Eisenhower East planning area’s superior access to transit service indicates that there is a generally strong market for sale and rental residential uses.

Understanding the market potential to absorb new office, residential, and retail space provided the basis for determining the overall magnitude of the development opportunity, the most appropriate mix of uses, and how these uses should be allocated over the planning area in an economically effective manner.

OFFICE SPACE MARKET POTENTIAL

The analysis of the Eisenhower East area's office space market potential was analyzed relative to the regional trends in office space construction, and provides a forecast for future office space absorption in the corridor.

Regional Market Context

The City of Alexandria's competitive market for office space consists of the Washington, DC region, encompassing the District of Columbia, Suburban Maryland, and Northern Virginia. As of September 2002, this region had 324.9 million square feet of office space and is considered to be the second largest office space market in the United States. Of this total, 44% of the total market supply is located in Northern Virginia.

Over the 32-year period 1970-2002, the supply of office space in the Washington, DC regional market area has grown at an average annual rate of 8 million square feet. During the peak construction years between 1985 and 1990 the development rate accelerated to 16 million square feet annually.

Spurred on by the market stimulus provided by the "dot.com" industries the Washington region saw an office development boom in the late 1990s and first two years of the 21st Century. The recent decline of this industry has led to office space vacancy rates in some suburban Virginia sub-markets that range as high as 30%. However, on balance, the

Washington office space market enjoys a healthy current occupancy rate of about 93%, and should enjoy future annual growth averaging approximately six to seven million square feet of space.

The Alexandria Office Market

The City of Alexandria has an existing inventory of 13.0 million square feet of office space. Its annual growth, including the Patent and Trademark Office (PTO) project currently under construction, has averaged 420,000 square feet annually over the last 30+ years. Effectively, the City has been able to capture a regional market share of 5.2%. Similar to other inner Beltway sub-markets, Alexandria currently enjoys an office space occupancy rate that exceeds 91%, and has not been severely impacted by the recent collapse of the "dot.com" industries.

In addition to its prime location in the City of Alexandria, the major strengths of Eisenhower East as an office site are as follows:

- Immediate proximity to the existing Eisenhower Avenue Metro Station. As demonstrated in Arlington County and numerous other metropolitan areas throughout the United States, a transit station can serve as a lynchpin for a successful high density, live-work environment. It is also a favored location by employers seeking access to a large regional labor pool;
- Access and visibility from the Capital Beltway, a roadway that is currently undergoing substantial improvements including the expansion of the Wilson Bridge across the Potomac River; the addition of travel lanes to the Capital Beltway at the Springfield Interchange; and improvements to the on-and off-ramp systems that provide linkages to the Eisenhower East site;
- Proximity to office centers in Arlington and Washington, DC by either transit or automobile;
- Proximity to the Ronald Reagan Washington National Airport;
- Proximity to the cultural and commercial recreation opportunities found in Old Town Alexandria;
- Potential synergistic benefits associated with a master-planned, mixed-use, pedestrian environment that affords the opportunity to both live and work in Eisenhower East;
- Cost advantages associated with a near-central location that is outside the District of Columbia boundary – realtors indicate that annual operational costs for office buildings are from \$4.00 to \$7.00 per foot lower in Alexandria than in Washington, DC;

- A proven market location that is proximate to the primary generator of jobs requiring office space, the Federal Government, and satisfies the GSA requirement for contractors to locate within 2,500 feet of a metro station; and
- Potential “spillover” of additional office tenants that are generated by the presence of the Federal Court Building and the PTO offices.

The major weaknesses or deficiencies of Eisenhower East as an office location area as follows:

- Local access via the arterial street system is deficient in a number of important respects due to the historical “spoke” pattern of regional arterial roads focusing on Old Town; the absence of a north-south grid pattern of streets westerly of U.S. 1; and the southerly barrier condition presented by Mill Run and the Capital Beltway. Significant road improvements will be needed to accommodate future traffic generated by both residents and employees, including the widening of Eisenhower Avenue and enhancement of Telegraph Road ingress/egress to the corridor;
- While not a current issue, in the future it will be important to augment the public transit systems serving the immediate Eisenhower East area, such as providing the Metro station

with expanded platforms, feeder buses, and improved pedestrian and automobile ingress and egress, as presented within this Plan;

- The proposed urban character of Eisenhower East may not appeal to certain companies that favor the lower-density, stand-alone suburban environment that is provided at locations near Dulles International Airport or in other areas in Fairfax County;
- The proposed limitation on parking to 2.0 spaces per 1,000 gross square feet of office space may not be acceptable to some of the larger space users who prefer the 3.5 to 4.0 space per 1,000 square foot ratios available in suburban locations; and
- The relative scarcity of lower-density residential opportunities to serve senior and junior executives will be considered as a problem by some firms considering the location.

Eisenhower East Office Absorption

Given its strategic position in the Washington, DC metropolitan area, the likely continuation of the federal government as the primary generator of office employment in the region, the completion of the proposed improvements to the regional road system in the immediate vicinity, and the implementation of the Eisenhower East Plan, the City of Alexandria should continue to serve as a

prime location for new office development in the region. Accordingly, the City of Alexandria should be able to capture a four to five percent market share of the Washington, DC Regional Market Area office space demand, the equivalent of 250,000 to 350,000 square feet per year, for the next 10 to 15 years in addition to the space that is currently committed for development at PTO. The majority of the future space—between 200,000 and 250,000 square feet annually—should be captured at various Eisenhower East office projects.

Potential Impact of Limiting Office Parking within Eisenhower East

An important consideration in the assessment of the future market potential for office space in Eisenhower East is the recommended restriction of parking in new office developments to an effective ratio of 2.0 parking spaces per 1,000 square feet (SF) of office space for projects located within 1,500 feet of the Eisenhower Avenue Metro Station. A review of this issue revealed the following:

- Empirical studies of office employee parking behavior (see Donald C. Shoup, “An Opportunity to Reduce Minimum Parking Requirements,” *APA Journal*, Winter 1995) suggests that employer-paid parking demand is 2.4 spaces per 1,000 square feet, and driver-paid parking demand is 1.8 spaces per 1,000 square feet. Effectively, when the cost of parking is not subsidized by the

community or the employer and passed on to the employee, on balance there is likely to be a significant reduction in net employment-related parking demand;

- Washington, DC restricts parking in office buildings to a standard of 1.66 and Arlington is pushing for a 1.0 standard near metro stations, thus Alexandria is hardly on the “fringe” with respect to this issue;
- While some realtors indicate that some suburban tenants insist upon parking levels at 3.0 or more spaces per 1,000, these users are not likely candidates for the highly-urbanized development that is being proposed for Eisenhower East;
- Discussions with developers and lenders suggested that they did not believe that the parking restriction was a major problem that would potentially constrain new office development programs;
- The recently developed office buildings within Carlyle have been fully leased with similar, and in some cases, lower parking ratios. The parking ratios for office space, based on gross square footage, range from a low of 1.23 spaces per 1,000 square feet to a high of 2.1 per 1,000 square feet. Excluding the Patent and Trademark Offices, which has a 1.56 per 1,000 square foot ratio, the average ratio of all other office buildings in Carlyle is 1.77 spaces;

- On the major sites, there do exist higher ratios of parking supporting the current uses. This existing parking will aid in accommodating potential interim parking needs during the transition to the full urbanization of the area when parking demands are reduced; and
- Finally, the implementation of a comprehensive transportation demand management plan involving transit and other movement systems should be able to mitigate any short-term stresses created by the 2.0 spaces/1,000 SF standard in Eisenhower East.

Summary of Market Potential for Office Space in Eisenhower East

Given its strategic position in the Washington, DC metropolitan area, the continuation of the federal government as a primary generator of office employment in the region and the completion of the proposed improvements to the regional road system in the immediate vicinity of Eisenhower East, the City of Alexandria should continue to serve as a prime location for new office development in the region. Its market “niche” is well established, as a location that is close to the center of the Washington, DC metropolitan area, is highly desirable in terms of operational costs, and is easily accessible by automobile and transit to a large labor pool.

Accordingly, the City of Alexandria should be able to continue to capture a four to five percent market share of the Washington, DC Regional Market Area demand or from 250,000 to 350,000 square feet per year for the next 10 to 15 years in addition to the space that is currently committed for development at PTO. The majority of that space – perhaps 200,000 to 250,000 square feet – should be capturable at Eisenhower East locations.

In order to achieve this level of market penetration it will be necessary for the City to ensure that developers provide the amenities and conveniences that are commonly associated with a highly urbanized location. In addition to providing office space, the developments should offer a range of nearby residential choices that encourage a “live-work” life style and a range of shopping and entertainment experiences that are accessible on a pedestrian basis. The type of “town center” that could serve as an important “anchor” attraction for future office space is reviewed below in the analysis of retail development potentials.

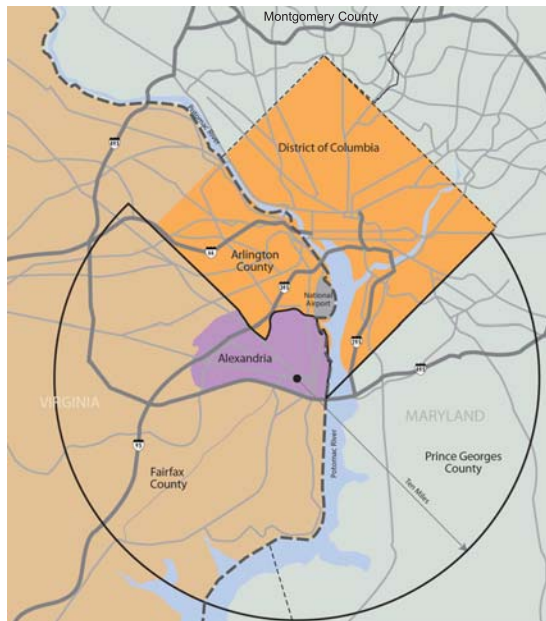


Figure 3-1 Primary Market Area

RETAIL MARKET POTENTIAL

The retail analysis considered two types of retail development opportunity in the planning area:

- The market potential for a “town center” retail experience offering a diverse mix of retail, restaurant, and services uses that serves the larger regional population; and
- The market potential for convenience retail and service activities that provide for the immediate needs of residents, employees, and visitors located in the Eisenhower East planning area.

Primary and Secondary Market Areas

Market areas for a potential “town center” type of retail development have been derived from: (1) application of appropriate geographic and mileage standards for town centers and urban entertainment/retail complexes determined from patronage at comparable developments; and (2) direct observation of current customer visitation patterns to the existing cinema complex within the planning area.

Using these sources, the PRIMARY MARKET AREA (PMA) for the proposed town center includes the City of Alexandria and a “pac-man” shaped configuration that extends for a 10-mile radius in the westerly, southerly, and easterly directions from the existing Hoffman cinema complex site (see Figure 3-1, Primary Market Area). The

SECONDARY MARKET AREA (SMA) includes Arlington County; District of Columbia; Prince William County, Virginia; and portions of Fairfax County, Virginia and Prince George’s County, Maryland that lie more than 10 miles from the existing cinema complex site.

These market area definitions reflect that: (1) the Capital Beltway is a significant determinant of the shape of the PMA by providing access for Prince George’s County residents to the site; (2) despite their relative proximity to Alexandria, Arlington residents utilize entertainment/retail opportunities locally, in Washington, DC and northern Maryland (Bethesda) rather than travel southerly to Alexandria; and (3) residents in southern Fairfax County and Prince William County tend to gravitate toward the metropolitan center for entertainment /retail activities and can be “intercepted” at the Eisenhower East location.

The Primary Market Area (PMA) for the Eisenhower East town center is currently estimated at 761,100 persons. The PMA is growing at a rate of 1.1% per year, and by 2007 should exceed 804,000 persons. About 18% of the PMA population, or 133,100 persons, reside within the City of Alexandria. In terms of per capita incomes, the PMA’s current average is estimated at \$37,144. The PMA is dominated by the City of Alexandria, where average per capita incomes are currently estimated at \$46,613. By 2007, average annual per capita

incomes for PMA residents should approach \$40,000. Aggregate retail spending by PMA residents should approach \$9.6 billion in 2002 and \$11.0 billion in 2007.

While SMA residents have lower per capita incomes (\$36,513) than PMA residents, their retail spending should approach \$35 billion by 2007. A SMA typically contributes from 15% to 20% of the potential market support to a major urban center.

Retail Sales Market Capture Rates

Two sets of retail sales market capture rates were developed in the analysis of market support generated by PMA and SMA residents: a “baseline” capture rate and an “optimistic” capture rate, with the latter representing the market potential if a major retail developer were introduced to the Eisenhower East development program. Application of the sales capture rates to retail categories considered appropriate for a town center produces a retail sales capture projection for the proposed Eisenhower East town center of \$80.9 million in 2002 and \$92.9 million in 2007 with the Baseline Scenario; under the Optimistic Scenario the capture projection is \$130.3 million in 2002 and \$149.3 million in 2007.

	2002	2007
Baseline Scenario	210,669	241,992
Optimistic Scenario	356,409	408,338
Source: Whitney & Whitney		

Table 3-1 Supportable Retail Space at Eisenhower East Town Center - PMA and SMA Residents

	2002	2007	2012	2017	2022
Shopper Goods	114,856	151,529	166,357	178,714	190,429
Eating and Drinking	38,170	75,063	98,472	117,980	136,474
Convenience Goods	38,492	66,065	82,373	95,963	108,846
Total Retail	191, 518	292,657	347,203	392,657	435,749
Services 10.00%	19,152	29,266	34,720	39,266	43,575
Grand Total	210,670	321,923	381,923	431,923	479,324
Source: Whitney & Whitney					

Table 3-2 Baseline Forecast: Supportable Space in Square Feet

		2002	2007	2012	2017	2022
Shopper Goods		219,876	271,568	286,396	298,753	310,468
Eating and Drinking		61,436	101,424	124,833	144,341	162,835
Convenience Goods		42,696	70,951	87,259	100,849	113,732
Total Retail		324,008	443,943	498,489	543,943	587,035
Services	10.00%	32,401	44,394	49,849	54,394	58,704
Grand Total		356,409	488,338	548,338	598,338	645,739

Source:
Whitney & Whitney

Table 3-3 Optimistic Forecast: Supportable Space in Square Feet

Table 3-1 summarizes the potential supportable retail space in Eisenhower East from existing PMA and SMA residents under the Baseline and Optimistic Scenario assumption structures for the periods 2002 and 2007. The projections indicate that there is potential market support for a town center with between 200,000 and 300,000 square feet of retail space from the existing and projected PMA and SMA resident market before consideration of the additional demand that will be generated by the build-out of the Eisenhower East master plan.

Visitors

Based upon current approval status and best estimates of future entitlements, Eisenhower East could ultimately be developed with over 17 million square feet of residential, office, retail, hotel and related space. In turn, with this magnitude of development the Corridor will generate three major sources of new retail demand: (1) the resident population, projected at more than 11,000 persons at build-out and allowing for a 4.8% vacancy rate; (2) an anticipated work force

projected at approximately 32,000 employees at build-out, with a vacancy allowance in office space at 10%; and (3) visitors to the Corridor hotels, projected to represent about 455,000 visitor days at build-out. After consideration of their likely retail expenditures, at full build-out locally generated demand should support an additional 237,400 square feet of retail space within Eisenhower East.

Regional market support is combined with local market support to produce a summary supportable retail space projection under both the Baseline and Optimistic scenarios. Per the more conservative Baseline forecast, the current 2002 demand for retail space in the Eisenhower Corridor master plan area is projected at 210,700 square feet; this increases over the 20-year forecast period to 479,200 square feet, distributed by major retail space category as described in Table 3-2.

Under the Optimistic projection, the total supportable retail space is projected currently projected at 356,000 square feet, and this amount increases to over 645,700 square feet at build-out (see Table 3-3).

As an overall planning parameter, the master plan allocation of almost 600,000 square feet of retail space for Eisenhower East lies between the Baseline projection of 496,300 square feet and the Optimistic projection of 662,700 square feet

that were considered sustainable at build-out from the combined regional and local sources of demand. While slightly aggressive, this scale is consistent with the larger objective of developing a major town center that would serve as a focal point for the region, and it also compares favorably in size with emerging entertainment/retail destinations that are occurring throughout the United States such as the Spectrum in Irvine, California and new facilities found in central Bethesda, Maryland.

Retail Space Allocations

The retail space allocations in Table 3-4 are recommended for the Eisenhower East master plan area, based upon current proposed development program. (See Figure 3-2 for block numbers.)

It should be recognized that the presence of an excellent market opportunity for the development of a major town center with 400,000+/- square feet of retail/entertainment uses and the amount of

Location	Total Square Feet
1. Hoffman Properties, Mill Race and Metro Station Environs: Blocks 6, 7, 8, 9, 10, 12, 13, 14	250,000-300,000
2. Hoffman Properties, Blocks 4, 5	50,000-80,000
3. Eisenhower Avenue Boulevard Retail, Blocks 18, 22, 23, 24	50,000
4. Carlyle Properties, North of Eisenhower	80,000
5. Properties South of Eisenhower, East of Elizabeth Lane	30,000-40,000
6. Whole Foods Market, Duke Street	50,000
Grand Total	510,000-600,000
Source: Whitney & Whitney	

Table 3-4 Retail Space Allocations

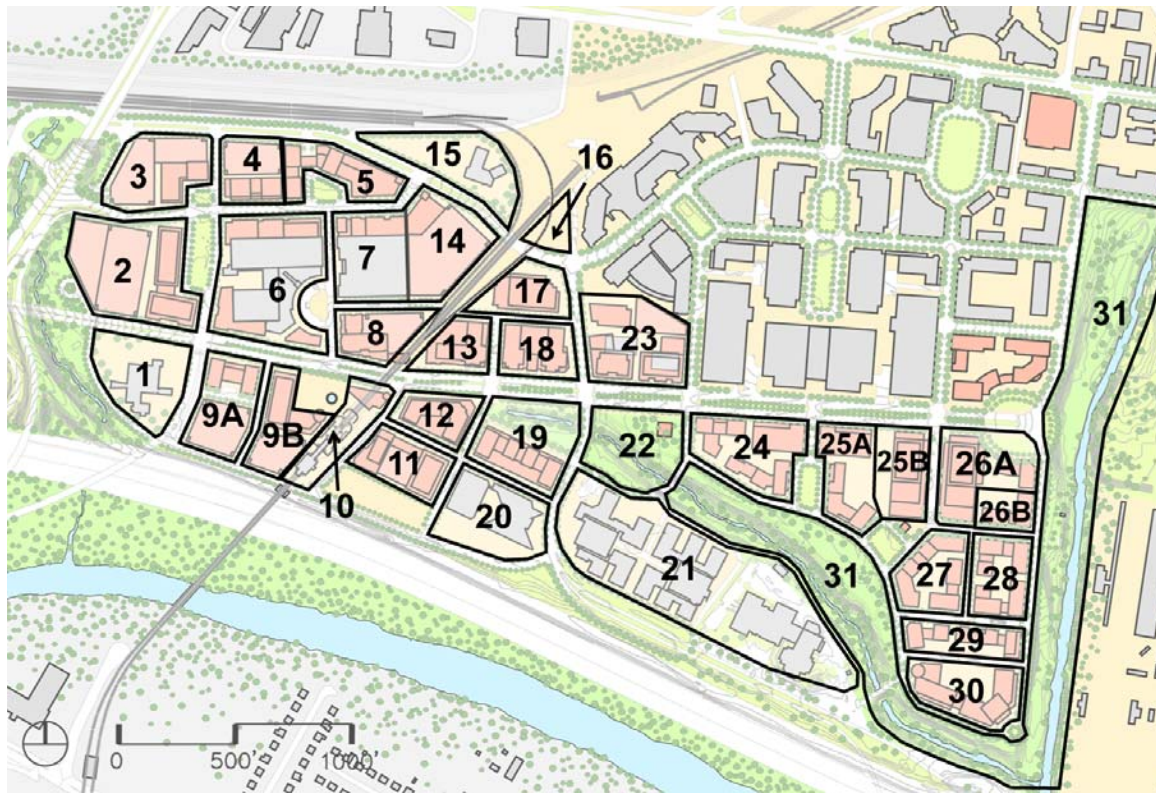


Figure 3-2 Block Number Key

new office space does not in itself guarantee a successful development. While the master plan outlines an excellent set of guidelines for future developers to follow, it is important to recognize that proactive public leadership will be required in the following areas:

- Planning of the town center in order to ensure that core activities are provided that serve community needs and provide maximum convenience;
- Planning of public spaces as part of the town center and the urban boulevard experience;
- Utilizing economic incentives in order to guarantee a balanced, mixed use live-work community; and
- Developing adequate infrastructure and careful management of the transportation system, including the integration of public transit systems, existing Metro facility and parking for the town center to ensure public access and convenience.

Market Summary

The market analysis indicates that there is sufficient market potential to accommodate the general office parameters outlined in the Plan over the 20-year plan horizon, and the on-going market for housing in the Alexandria area fulfills the needs residential needs of the Plan. Of particular interest is the strong potential for retail and entertainment uses, first to establish a town center with a regional draw and a neighborhood or convenience center to meet the everyday needs of the workers and residents of Eisenhower East. The market analysis indicates that the involvement of an experienced retail developer in the planning and development of the town center would enhance the scope, scale, and economic potential of the important retail/entertainment component.

Supported by market forces, the City has a unique opportunity to guide and manage new development in Eisenhower East towards the creation of an exciting and inviting urban place that benefits the entire community.